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C O N F I D E N T I A L SECTION 01 OF 04 SHANGHAI 007129

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SUBJECT: SHANGHAI LEADERSHIP UPDATE

REF: A) SHANGHAI 6957; B) SHANGHAI 7121; C) BEIJING 30588 (97); D) SHANGHAI 7112

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CLASSIFIED BY: Kenneth Jarrett, Consul General, U.S. Consulate,
Shanghai, Department of State.
REASON: 1.4 (b), (d)

11. (C) Summary. In the continuing fallout of the pension scandal that led to the ouster of former Party Secretary Chen Liangyu (Ref A), four Shanghai contacts viewed acting Party Secretary Han Zheng as a transitional figure likely to be

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replaced at, or before, the 17th Party Congress. The South Korean CG told us that President Hu Jintao had already made his decision on who would fill the slot, noting that it would be someone from outside Shanghai. United Front Work Department Head Liu Yandong was very interested in the position, but President Hu Jintao remained tight-lipped over who he was trying to promote. Both Han Zheng and Vice President Zeng Qinghong had been instrumental in Chen's ouster. The children of several top leaders were also involved in the scandal but it appeared that all but Chen's son--who apparently fled the country--would likely not face prosecution in order to maintain party unity. Hu had been increasing his authority since the scandal, including replacing the head of the Shanghai Discipline Inspection Commission (DIC) with an outsider, answerable only to Beijing. Meanwhile, a second wave of Central DIC inspectors have moved into Shanghai, suggesting that the pension scandal was entering a new phase. Huang Ju remained seriously ill and returned to Shanghai for treatment. End summary.

Who Will Take the Reins in Shanghai?

12. (C) During a December 6 meeting, Shanghai Municipal People's Congress Researcher Zhou Meiyuan said the current thinking in Shanghai was still that acting Shanghai Party Secretary Han Zheng would likely be replaced as Party Secretary by the 2007 Party Congress. During a November 27 discussion, Jiaotong University Dean of the School of Public Affairs and International Relations Hu Wei said he believed Han would be replaced prior to the Congress. He added that it was abnormal in a province to have both the top party and government slots

occupied by persons who had risen through the local ranks. Shanghai had been the exception for many years and Professor Hu believed that President Hu Jintao planned to rectify this situation. The South Korean CG recently told us that, according to a district level official, Hu Jintao has already identified a new Party Secretary for Shanghai. The South Korean CG did not know the name but was told the person was not from Shanghai. Moreover, the South Korean CG understood that Han Zheng would remain in place as Mayor.

13. (C) During a November 30 dinner, Yang Yuanxing (Ref B), husband of United Front Work Department Head Liu Yandong, said that Liu, often named as potential candidate for the job, was very interested in the position. Liu spent her early childhood in Shanghai and spoke the local dialect. However, when asked if he was considering her for the spot, President Hu reportedly said he had not considered the matter and would have to research it. During a follow-up meeting on December 4, Yang said that Hu claimed not to know who would take over the job from Han.

Sacking of Chen Liangyu Served Many Goals

14. (C) During a December 12 conversation, University of Hong Kong School of Economics and Finance Associate Professor Xiao Geng said that Beijing had used Chen's sacking, in part, to cool down Shanghai's economy and other fast growing parts of China. Xiao explained after Chen's arrest, there was an immediate drop in fixed asset investment, imports, and bank lending. He added that this highlighted Beijing's lack of effective macroeconomic controls.

15. (C) During the same meeting, Huang Jing, the Brookings Institute's Thornton China Center Senior Fellow, said that President Hu Jintao had sacked Chen to send a message that Beijing would no longer tolerate provincial backtalk on its policy goals. Chen was the most vocal proponent of the "Shanghai model" of economic development that many coastal and some inland cities had adopted. According to Huang, Chen had known for some time that his days were numbered and that he had

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a choice: he could promote Hu's wealth redistribution policy and still get sacked, or stick to his ideas and go down fighting. Chen, Huang said, had chosen the latter tack.

16. (C) Huang also noted that Mayor Han Zheng had played a large role in Chen's ouster. Huang said that Han had been passing information on Chen's misdeeds to Beijing. Han's promotion to acting Party Secretary was his payoff for his cooperation. Huang said he expected Han to complete his term as Mayor since he had proven his loyalty to Hu Jintao. Huang did not say if it Han volunteered the information or had been asked to help. Huang said that compared to other officials at his level, Chen had actually not been very corrupt. Huang also stressed the instrumental role that Zeng Qinghong had played in the investigation that led to Chen's downfall. According to Huang, Jiang Zemin said that Chen got what he deserved ("huogai").

Return to Your Cage

17. (C) Huang said that the Shanghai crackdown illustrated Hu's efforts to carry out reforms within "the cage" but noted that in practice this would be impossible. What China's economy needed was decentralization and greater rule of law. Hu, however, was falling back on recentralization and focusing on party discipline, the only tried and true tools of Communist rule. Xiao agreed with Huang's assessment and argued that there was no way that central policy could be appropriate for all localities. He added that there were a number of interest groups with vested interests in the Shanghai model that stood to lose out significantly if Hu were successful in adopting the Harmonious Society model. (Comment: The "cage" reference dates back to the

early period of the reform movement when conservative party elder Chen Yun compared China's centrally planned economy to a bird in a cage, with the plan being the cage and the bird the economy. Chen argued for expanding the cage, or the boundaries in which the economy could operate, but stressed that central control of the cage was necessary to avoid chaos. End comment.)

Princeling Connection to Pension Scandal Runs Deep

18. (C) Professor Hu said that the families of several top leaders were involved in the pension scandal that toppled former Shanghai Party Secretary Chen Liangyu. He referred to Jiang Zemin's elder son, Jiang Mianheng as a "stake holder" in the real estate transactions associated with the scandal. He also noted that Vice Premier Huang Ju's daughter, Huang Fan, was involved and that Huang Ju and Chen had enjoyed a very close relationship. Zhou added that Jiang's younger son, Jiang Miankang, had been involved in the scandal through Chen Liangyu's son, Chen Weili.

19. (C) Professor Hu explained that President Hu would not go after Jiang's children through this scandal, since it would threaten the party's legitimacy to go after the family members of "respectable" leaders (i.e., Politburo members or retirees who had not lost their party membership or been prosecuted.). He noted, however, that if top leaders fell from power, their families were no longer off limits. Zhou said that Chen Weili was wanted by law enforcement officials but had managed to slip through their fingers and had probably fled the country. She said that it was a common practice for the family members of top leaders to have multiple passports to smaller countries, such as Iceland, allowing them to escape relatively undetected when things went badly for their families. (Note: The last time in recent memory that a Politburo member fell--Beijing Party Secretary Chen Xitong in 1996--his son, Chen Xiaotong, was

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arrested and sentenced to 12 years in prison (Ref C). End note.)

110. (C) Zhou said that travel had become more difficult for senior Shanghai leaders at the department level and above. Department directors and above needed to turn their personal passports in to their work units for "safekeeping" and all leaders at the bureau level and above needed approval from the Shanghai Organization Department for personal overseas travel. Although these restrictions had been in place well before the Shanghai pension scandal broke, enforcement had been stepped up since Chen's arrest. Zhou denied rumors that Han Zheng was personally chopping off on officials applying for overseas travel.

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Naming of New DIC Head in Shanghai Reflects Hu's Power

111. (C) Zhou noted that Beijing recently appointed Shen Deyong as the new head of Shanghai's Discipline Inspection Commission (DIC). While past heads of the DIC had risen through the Shanghai ranks, Shen was most recently a vice president of the Supreme People's Court. Zhou said that President Hu's authority had increased dramatically since the removal of Chen Liangyu. The replacement of the head of the Shanghai DIC was meant to send a message to other provincial leaders that Beijing was in control and would not tolerate deviation from Hu's line. By having the local party watchdog answerable to Beijing instead of local party bosses, Hu was giving the DIC teeth to collect information on local officials which would be passed directly to Beijing without the provincial filter. (Note: Since September, the heads of 12 provincial DICs had been replaced, nine with outsiders. This represented a real change from the past practice of DIC heads being promoted from the provincial ranks.

End note.) During a December 5 meeting, Weyerhaeuser China General Manager Zhang Renren compared the outsiders taking up these posts to the imperial inspectors of the Qing Dynasty. These inspectors carried with them a three-sided sword that both represented their authority to act in the name of the emperor and could be used to lop off the heads of local officials found to be out of harmony with Beijing's directives.

¶12. (C) Professor Hu separately added that the current anti-corruption campaign was not a real crackdown but a "political game" Hu was using to consolidate his power. He noted that if Chen had not been removed, his youth and position on the Politburo would likely have made him a candidate for the next General Party Secretary. Hu did not like Chen and saw Chen as a threat to his own power. Hu needed to remove Chen before the 17th Party Congress to prevent Chen from consolidating support for his promotion bid. Professor Hu said that Mayor Han Zheng was also involved in the pension scandal, as was Huang Ju. However, bolstering the idea that this was a political game and not a rethinking of the system of governance, neither man had been removed because of their involvement. In Han's case, President Hu assessed that removing him would have been too much of a shock to the Chinese political system. (Comment: To remove, at the same time, both the top government and party leaders of a provincial level entity would have presumably had an impact far beyond Shanghai, which would also have been destabilized. End comment.) In the case of Huang Ju, President Hu did not see the political benefit to be derived from making Huang's connection to the case public since Huang was already dying.

Investigation May be Entering a New Phase

¶13. (C) Zhang Renren said that his contacts had informed him that a new group of inspectors from the Central Discipline Inspection Commission had recently moved into the Eastlake Hotel (Donghu Binyuan) near the Consulate on Huaihai Road. He said this probably indicated that the first round of the investigation was complete--those investigators had stayed at the Moller Villa--and Shanghai was gearing up for round two. Indeed, when Poloff called the hotel to inquire about rooms the hotel said that one of its two buildings had been completely rented out.

Huang Ju: Dying to Leave Beijing

¶14. (C) During a December 1 meeting, Citibank China CEO Richard Stanley said that in his discussions in Beijing, he had heard that Huang Ju was still sick with cancer and resided in Shanghai (Ref D). Huang was "technically retired" and would probably be officially retired in March 2007. Zhou confirmed that Huang was, indeed, in Shanghai. Her contacts in the Shanghai government said that Huang had refused treatment from Beijing doctors, insisting on medical staff being flown in from Shanghai. Eventually, he insisted on being transferred to Shanghai. Huang did not trust the doctors in Beijing and was scared that Hu Jintao would order them to provide sub-standard care, hastening his death. Yang confirmed that Huang was gravely ill and denied reports that he had simply had a

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pancreatic infection. (Note: Huang Ju's last public appearance was November 21 when he met in Shanghai with the head of the New Zealand Banking Group. A photo of Huang at the event can be found at http://sh.news.163.com/06/11/22/09/30H8AE4S00_370087.html. End note.)
JARRETT